



# News to Use

A newsletter for PERSI Employers

April 2000

- Purchase of Service
- Gains sharing will require reporting changes

## Purchase of Service legislation brings many questions

You may be getting a lot of questions from your employees about the "Purchase of Service" law that recently passed. We've been getting many phone calls from people wanting to know: 1) How much the purchase will increase their retirement, 2) How much it will cost them, 3) And more.

This bill was not proposed by PERSI so we are not 100% ready to handle questions yet. But for now, this might help you answer some of your employees' questions:

- The law allows any active, vested member to purchase up to 48 months of PERSI service. They can buy it for whatever reason they want. They only need be **active** and **vested** to do so.
- We are developing a calculator and hardcopy worksheets so that people can figure out for themselves what it does to their benefit and how much it will cost them. The calculator will be posted on our website ([www.persi.state.id.us](http://www.persi.state.id.us)) the very day it is ready (probably around the end of April). **Please ask your employees to check the website in a few weeks and let them know there's really not much more we can help them with right now.**
- PERSI will not begin accepting any service purchases until July 1, 2000.
- Purchase of service is very expensive. Rough estimates run so far put the cost between \$25,000 - \$120,000 to buy 48 months, depending on salary. The amount is not based on a percentage or employee or employer contributions. There is a calculation involved, which the spreadsheets will utilize.
- Basically employees are paying now for an increased benefit later. If the purchase improves their retirement benefit \$75,000 over their lifetime, they pay us the present value of \$75,000 now and we pay it back to them throughout their retirement. If they live long enough, they may get back their \$75,000 plus some.
- Legislation also passed to allow people to purchase Military Service, however, if an employee wants to buy Military Service, tell them they can just buy "any" service instead which requires no proof of anything. Members can only buy 48 months maximum (They cannot buy military and other service for 96 months -- it is 48 months maximum total.)
- Purchase of service can be made over time by payroll deduction but must be paid in full before retirement.

If your employees have more questions, please ask them to be patient, and to check our website for the most up-to-date information. We will send newsletters and provide more information just as quickly as we are able.

# Gains sharing and new transmittal system will require employer reporting changes

*New Gains sharing legislation will require all PERSI employers to offer a new PERSI sponsored voluntary defined contribution plan to all employees, which will require reporting changes.*

## **Gains Sharing and Voluntary Defined Contribution Accounts**

In addition to providing employer credits, defined contribution (DC) contributions to active members and payments to retirees, the gains sharing legislation requires that all working PERSI members be allowed to make voluntary deductions from their pay to contribute to their individual DC accounts. Should PERSI investments exceed 11% for fiscal year 2000 (year ended June 30, 2000), we anticipate gains sharing will be initiated approximately January of 2001, and we must be able to accept voluntary tax-deferred employee contributions at that time.

## **Changes Required**

Changes that will be required of all PERSI employers to implement gains sharing and voluntary DC contributions include:

- The DC plan must be made available to all PERSI eligible employees
- DC contributions must be **pre-tax**
- **Time Critical Reporting-** the law requires that PERSI must receive employee funds within five (5) days of deduction from employee pay
- **Transmittals** - instead of having two transmittals – one for the regular PERSI plan and one for the DC plan – it is preferable to have a combined transmittal. Because of the five-day reporting requirement, all PERSI transmittals would need to be reported within five days of your pay date.
- **DC Limits Testing** – Employers have always had the responsibility to test employee deferrals to retirement plans to ensure they meet the required IRS limits. Because there are IRS limits on how much can be contributed to pre-tax retirement savings accounts per year, it may be more complex for employers to provide Limits Testing to ensure employees do not exceed the annual limits. PERSI is not able to perform this testing because we have no way of knowing what other DC accounts the employee may be contributing to. In some cases employer limit tests will have to account for gains sharing distributions made to their employees by PERSI. PERSI will be offering technical assistance.
- **PERSI's new Transmittal System** - Our new automated transmittal reporting system will be available in the last quarter of 2000. We will be doing pre-testing and employer training on the new system within the next six months.

## **DC Training**

We will provide training for administrators and payroll/human resource personnel on all aspects of the DC plan and the new transmittal systems as soon as we have the plan design, third-party-administrator and education plan ready.

We realize these changes will be difficult, and for this we apologize. We understand your concerns as we are going through significant changes ourselves due to the new computer system and gains sharing legislation. We have attempted to combine the required changes so you only have to do them once.

From the feedback we have received we believe that keeping a single transmittal that covers both PERSI (DB) plan contributions and DC plan contributions is preferable to a second transmittal for the DC plan. This would mean, however, that the employer must send the money and transmittals to PERSI within five (5) days from the payroll date. Please let us know if you agree or disagree with this approach. If you disagree please let us know why and what we can do to accommodate your concerns.